

# Day Break

Tuesday, 07 September 2021

## Initial Public Offering

**Company:** Octopus Digital Limited

**Floor Price:** PKR 29/share

**Shares offered:** 27mn Shares

**Amount Raised:** PKR 793mn

**Date of Subscription**

**Book building:** 9th - 10th, September

**General Public:** 16th - 17th, September

**Recommendation:** SUBSCRIBE

### About the Company:

The Company was incorporated on 29th December, 2017 as 'Avanceon Digital Private Limited'. The name of the Company was changed to Octopus Digital Private Limited on 5th April, 2019. Subsequently, the Company was converted into a public limited company on 11th November, 2020.

Octopus is a service oriented company, and currently providing AMS services to clients who had been provided with automation solutions by Avanceon, and it includes a wide range of clients both internationally and locally.

The Company has evolved from within Avanceon (it is a wholly owned subsidiary of Avanceon) and aims to provide digital services to help transform the industry through modern day technology including cloud services, data analysis, advanced and predictive analytics, predictive maintenance & risk management.

### Analyst

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## Technology & Communication

### Octopus Digital Limited: 'Subscribe'

- Octopus Digital Limited (ODL) has filed for listing via book building schedule on September 9th – 10<sup>th</sup>, while public subscription will be held from 16<sup>th</sup> – 17<sup>th</sup>, sept-2021.
- The Company is offering 27.4mn shares at a floor price of PKR 29/share.
- We recommend a 'Subscribe' to the offer on Octopus Digital Limited (ODL) up to PKR 40/share

### Octopus Digital to raise PKR 793mn to ride Industry 4.0; digital transformation trend

Octopus Digital Limited (ODL) has filed for listing via book building schedule September 9th – 10<sup>th</sup>, while public subscription will be held from 16<sup>th</sup> – 17<sup>th</sup>. The total issue is PKR 793.1mn at a floor price of PKR 29/share and 27.4mn shares.

Proceeds of IPO will be utilised entirely for financing of intellectual property (Digital Dashboard Platforms) including their marketing and sales expenditures.

#### Exhibit: Utilisation of IPO Proceeds

in PKRmn	PKRmn	%
-Intellectual property	696.0	88%
-HR Costs of Marketing	42.2	5%
-HR cost of sales	55.0	7%
Total	793.2	100%
IPO Proceeds	793.2	
New Shares issued:	27.4	
Floor Price (PKR/share):	29	

Source: Octopus Digital Prospectus

### Based on our initial take, we recommend a 'subscribe to the offer' up to PKR 40.6/share.'

We recommend a 'Subscribe' to the offer on Octopus Digital Limited up to PKR 40/share. We base our subscription price recommendation based on company' provided financials and have use discount cash flow and market multiple approach for our price target. At PKR 29/share floor price the company forward 2022 P/E comes at 7.3x (industry: 23x) and P/S of 2.9x (industry: 5.3x).

## About the Company and expansion

As of current, Octopus Digital Limited is a service oriented company which Provides After-Market Solutions (AMS) for automation projects carried out by its parent company Avanceon. These AMS mainly works via gathering and analysing performance of a particular industry/company and realigning the automation and system processes to make operational performance more reliable and sustainable.

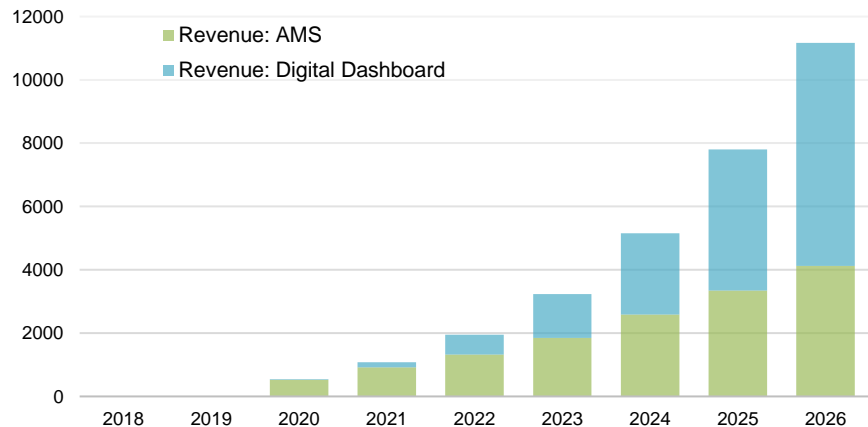
### Expansion of Digital Dashboard Platforms

The company will be developing various 'Digital Dashboard' platforms to upgrade its services suite to industry 4.0. The target markets for these services will be Pakistan, Middle East and United States. These will be introduced under the names of Topware and OmniConnect.

- **Topware:** Topware will help analyse data and will provide prediction and prescription based on the data analysis
- **OmniConnect:** OmniConnect, will serve to collect data from any source, compute that data, perform KPIs and transfer that data to any other source.

### Exhibit: Total Revenue forecast (5yr cagr of 60%)

In PKRmn



- **Regional distribution of revenues:** A significant portion of revenue of the company is generated from its clientele based in Middle East (for AMS: Dubai 44%, Qatar 15%).

The company holds a competitive advantage over its competitors owing to its own data lake established through the Microsoft cloud facilities making it uniquely positioned to cater its clientele based in Middle East. In addition, the Company has developed its niche in servicing

industrial automation clients which is uncommon in this segment of the industry.

**Exhibit: Shareholding pattern pre/post- IPO**

in mn shares

Shareholder category	Pre-IPO	%	Post-IPO	%
Avanceon Limited	109	100%	109	80%
Mr. Tanveer Karamat	0	0%	0	0%
Mr. Bakhtiar Hameed Wain	0	0%	0	0%
<b>Sponsors</b>	<b>109</b>	<b>100%</b>	<b>109</b>	<b>80%</b>
Book Building	0	0%	21	15%
General Public	0	0%	7	5%
<b>Total New issue</b>	<b>0</b>	<b>0%</b>	<b>27</b>	<b>20%</b>
Total Share capital	109		137	

Source: Octopus Digital Prospectus

## Industry Outlook

**About Industry 4.0:** The industry 4.0 refers to the 4th phase in the industrial revolution that focuses heavily on interconnectivity, automation, machine learning and real-time data. This revolutionizing technology requires firms to deliver highly customized and high-quality products at low price and on time.

**Application of Industry 4.0:** The various applications which come under it include Industrial Robotics, Internet of the Things (IoT), 3D printing, artificial intelligence (AI), and machine learning. Hence offering manufacturers the opportunity to optimize their operations, supply chain processes and allow manufacturing systems to adjust to a proactive approach, encouraging lean and cost effective production.

**Market Growth:** As of 2020, total market size of Industry 4.0 is estimated at 86bn reaching 267bn by 2026, a 27% cagr.

With the global coronavirus outbreak Industry 4.0 is likely to see faster growth as it promotes resilience to future pandemics by limiting human interaction and reducing human dependence, and safeguarding against unexpected shutdown crisis therefore bringing about enhanced stability in company operations.

**Exhibit: Key Financial highlights (Forecast as per company's management)**Price metrics using floor price of the issue: **PKR 29/share**

PKRmn

	2020	2021	2022	2023	2024	2025	2026
<b>P&amp;L</b>							
Total Revenues	549	1,077	1,945	3,230	5,159	7,802	11,167
Revenue: AMS	527	921	1,325	1,848	2,582	3,348	4,127
Revenue: Digital Dashboard	0	156	620	1,382	2,576	4,454	7,039
Gross Profit	360	631	1,160	1,980	3,283	5,115	7,469
Operating Profits	302	450	847	1,487	2,527	4,025	5,969
Finance Cost / Other Charges	5	8	48	133	270	504	855
Taxation	15	22	40	68	113	176	256
Profit after-tax	282	420	759	1,286	2,144	3,344	4,858
EPS	2.1	3.1	5.5	9.4	15.7	24.5	35.5
DPS	0.0	0.0	0.0	4.3	7.4	12.4	19.4
<b>Margins</b>							
Gross Margins	66%	59%	60%	61%	64%	66%	67%
Operating Margins	55%	42%	44%	46%	49%	52%	53%
Net Margins	51%	39%	39%	40%	42%	43%	44%
EBITDA Margin	55%	45%	47%	50%	53%	55%	57%
<b>Growth</b>							
Sales Growth (%)	0%	96%	81%	66%	60%	51%	43%
EBITDA Growth (%)	0%	59%	90%	75%	69%	58%	47%
Net Profit Growth (%)	0%	49%	81%	69%	67%	56%	45%
<b>Valuation</b>							
P/Ex	14.1x	9.4x	5.2x	3.1x	1.8x	1.2x	0.8x
PEG	0.0	19.3	6.5	4.4	2.8	2.1	1.8
Div. Yld (%)	0.0	0.0	0.0	15.0	25.5	42.8	67.0
P/Bx	14.1x	2.5x	1.7x	1.2x	0.9x	0.6x	0.4x
P/Sx	7.2x	3.7x	2.0x	1.2x	0.8x	0.5x	0.4x
Sales / Capital	1.6	0.8	0.5	0.7	0.8	0.9	0.9
ROE (%)	n.m.	45	38	46	56	62	63
ROA (%)	n.m.	38	32	38	45	49	51
<b>Balance sheet</b>							
Fixed Assets	39	597	1,189	1,632	1,985	2,239	2,514
Cash	39	85	139	214	321	464	652
ST Invst.	76	719	781	856	1,347	2,330	3,758
Current Assets	350	1,244	1,689	2,327	3,654	5,781	8,670
Total Assets	389	1,841	2,878	3,959	5,639	8,019	11,183
ST Debt	62	120	202	313	475	676	905
LT Debt	4	48	92	135	185	234	293
Total Debt	66	181	320	492	729	1,010	1,323
Total Liabilities	107	275	491	773	1,163	1,649	2,231
Total Equity	282	1,566	2,387	3,186	4,476	6,371	8,952

Source: Octopus Digital Prospectus, no of shares: 137mn

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